

October 05, 2023

Five-Star Business Finance Limited: Ratings confirmed as final for PTCs backed by small business loan receivables

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Dhruva XXI 2023	PTC Series A1(a)	85.50	[ICRA]AA(SO); provisional rating confirmed as final
	PTC Series A1(b)	21.80	[ICRA]AA(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In September 2023, ICRA had assigned Provisional [ICRA]AA(SO) rating to pass-through certificate (PTC) Series A1(a) and Provisional [ICRA]AA(SO) rating to PTC Series A1(b) issued under a securitisation transaction originated by Five-Star Business Finance Limited {FSBFL/originator; rated [ICRA]AA-(Stable)}. The PTCs are backed by a pool of Rs. 115.47-crore (principal amount; receivables of Rs. 217.47 crore) small business loan receivables originated by FSBFL. Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said ratings have now been confirmed as final.

Key rating drivers

Credit strengths

- Availability of credit enhancement (CE) in the form of excess interest spread (EIS), principal subordination and cash collateral (CC)
- No overdue contracts as on the cut-off date
- Average seasoning of ~14 months and average pre-securitisation amortisation of ~10% as on the cut-off date

Credit challenges

- High geographical concentration with top 3 states contributing ~95% to the initial pool principal as on the cut-off date
- Performance of the pool would remain exposed to macro-economic shocks/business disruptions/natural calamities that may impact the income-generating capability of the borrower

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables are assigned at par to the PTC investors. The collections from the pool will be used to make the promised interest payouts (at the predetermined yield and on pari-passu basis to the holders of PTC Series A1(a) and PTC Series A1(b) PTC on the outstanding PTC principal) on each payout date while the entire principal is promised only on the final maturity date (September 19, 2029). During the tenure of the PTCs, the collections from the pool, after making the promised interest payouts to the PTCs, will be used to make the expected principal payouts to PTC Series A1(a). However, any prepayments will be used for payment of PTC Series A1(b) first while PTC Series A1(a) is live.

Following the redemption of PTC Series A1(a), the entire principal payments will be made to PTC Series A1(b) including prepayments. In case PTC Series A1(b) is redeemed earlier than PTC Series A1(a), the entire principal payments, including prepayments, will be made to PTC Series A1(a). The surplus EIS available after meeting the promised and expected payouts to the PTCs will be passed on to the originator every month.

Support for PTC Series A1(a) and PTC Series A1(b) in the transaction is in the form of a principal subordination of 7.07% of the

initial pool principal and an EIS of 57.79% of the initial pool principal. A CC of 5.0% of the initial pool principal (Rs. 5.77 crore), to be provided by FSBFL, acts as further CE in the transaction. In the event of a shortfall in meeting the promised PTC payouts during any month, the Trustee will utilise the CC (in case the principal subordination and EIS are insufficient) to meet the same.

There were no overdues in the pool as on the cut-off date. The weighted average seasoning of the pool was 14.2 months¹ with pre-securitisation amortisation of 9.6% as on the cut-off date. The pool had high geographical concentration with the top 3 states (Tamil Nadu, Andhra Pradesh and Telangana) contributing 94.8% to the initial pool principal amount. At the district level, the top district accounted for 4.8% of the initial pool principal amount while the top 10 districts accounted for 30.1%. The performance of the pool would remain exposed to macro-economic shocks/business disruptions/natural calamities, which may impact the income-generating capability of the borrower.

Past rated pool performance: ICRA has rated 21 securitisation transactions with the underlying receivables originated by FSBFL, of which 14 are live as of the August 2023 payout month. All live transactions that have completed at least one payout have reported healthy cumulative collection efficiency of more than 98% and loss-cum-90+ days past due (dpd) of less than 1%, post the August 2023 payout, with no CC utilisation.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and the rated pools as well as the performance and characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 4.0-5.0%, with certain variability around it. The average prepayment rate for the underlying pool is estimated at 18.0% per annum.

Liquidity position: Strong

As per the transaction structure, only the interest amount is promised to both series of PTCs on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. The collections from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to the PTC investors.

Rating sensitivities

Positive factors – The sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the CE would result in a ratings upgrade.

Negative factors – The sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher CE utilisation levels, would result in a ratings downgrade.

¹ Basis number of instalments as shared by the originator

Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the originator

Five-Star Business Finance Limited (FSBFL) is a Chennai-headquartered non-banking financial company (NBFC) extending secured loans to micro entrepreneurs and self-employed individuals, primarily in semi-urban markets. The company commenced operations in 1984, with a focus on consumer loans and vehicle finance. In 2005, it shifted its focus to small business loans with a typical loan ticket size of Rs. 2-10 lakh and an average ticket size of Rs. 3-3.5 lakh. Its loans are predominantly backed by self-occupied residential properties. As of June 30, 2023, the company had 386 branches across 10 states/Union Territories.

The company was listed on the NSE and BSE in November 2022. As of March 2023, the single largest shareholder comprised the individual promoters and promoter group (Mr. Lakshmiopathy Deenadayalan and his family) with a stake of 18.5%.

Key financial indicators

Five-Star Business Finance Limited	FY2022	FY2023	Q1 FY2024
	Audited	Audited	Provisional
Total income	1,256.2	1,528.9	483.6
PAT	453.5	603.5	183.7
Total managed assets	6,343.1	8,702.8	8,970.5
Gross NPA	1.1%	1.4%	1.4%
Net NPA	0.7%	0.7%	0.8%

Amount in Rs. crore; *Provisional numbers

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Trust Name	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				October 05, 2023	September 29, 2023			
Dhruva XXI 2023	PTC Series A1(a)	85.50	85.50	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-	-
	PTC Series A1(b)	21.80	21.80	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1(a)	Moderately Complex
PTC Series A1(b)	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Trust Name	Instrument Type	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
INEOREI15019	Dhruva XXI 2023	PTC Series A1(a)	September 2023	9.10%	September 2029	85.50	[ICRA]AA(SO)
INEOREI15027		PTC Series A1(b)	September 2023	9.62%	September 2029	21.80	[ICRA]AA(SO)

**Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool*

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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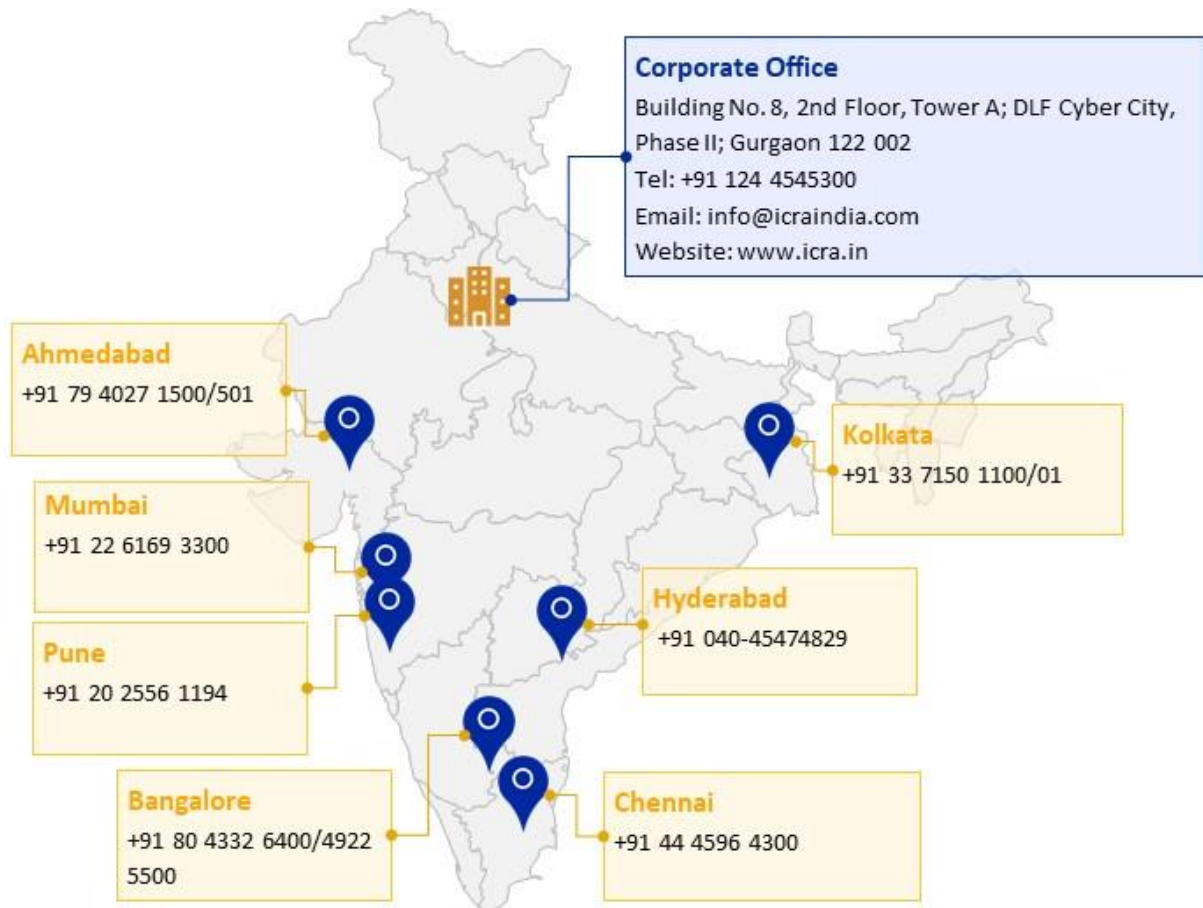
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